

TechWatch: ClusterSeven's answer to the spreadsheet control conundrum

Jan 16 2007 Joanne Wallen

Spreadsheets may be the tool of choice for traders, marketing professionals and finance departments, but their lack of accountability makes them a nightmare for anyone managing operational risk and compliance. One company claims to have the solution by making spreadsheets fully auditable, even down to individual cell level.

ClusterSeven has developed software that monitors and tracks spreadsheets across an organisation to help reduce operational risk and facilitate regulatory compliance.

According to Forrester Research, 55 per cent of financial reporting is done using Microsoft Excel.

Steve Semenzato, ClusterSeven's founder and chief executive, told *Complinet* that the big frustration with spreadsheets from a risk and compliance perspective was that people kept changing them. There was little in the way of audit trails embedded in a standard Excel spreadsheet.

For this reason, while hundreds of people within a large organisation rely heavily on spreadsheets in their daily work, organisations are often forced to bypass spreadsheets by attempting to develop IT systems that emulate the business processes without relying on spreadsheets. This allows them to comply with regulations such as the Sarbanes-Oxley Act and Basel II.

Semenzato believes this is an extremely costly route to take, and often will not fix the problem because so many people are wedded to their spreadsheets. He also believes that in many firms, capital adequacy levels are higher than they need be, simply because they have spreadsheets in their business processes.

Audit process

What ClusterSeven claims to do is to give compliance departments an audit process that they can sign off. The software reports by individual user and by spreadsheet cell, giving the compliance department access to every change made to a value or formula on every spreadsheet within the organisation.

The company, which was founded in 2003, got its first big break by winning a major Swiss bank as a customer. The bank helped it develop its technology. It has since added four or five other major banks, including a household name in the UK, although most are reticent to have their names used.

One major case study is Dresdner Kleinwort, the investment bank of Dresdner Bank AG, which invested in ClusterSeven in 2005 to help manage its spreadsheets, initially in the product control and finance departments.

Stephen Ashton, head of IT business management at Dresdner Kleinwort, said: "Crucially, ClusterSeven's technology lets us manage our spreadsheets like any other business application."

Ashton explained: "The main area of difficulty with spreadsheets is the change and control process. Having built them and gone through a rigorous testing process, they are left exposed to errors and, over time, they can eventually corrupt."

He said that having a tool such as ClusterSeven meant the organisation was no longer reliant on users to put manual controls in place to flag up errors.

"ClusterSeven's technology has functionality in a number of areas but its core strength is that it gives a fully auditable view of each spreadsheet," Ashton said.

Semenzato said what differentiated ClusterSeven from its few, mainly US-based competitors, was that the software was "non-intrusive" and sat in the network rather than on individual PCs. It was therefore almost invisible to the individual, although it could be set to alert the appropriate person if a change appeared to be anomalous.

He said that "spreadsheet control" had only just begun to be recognised as a market in its own right by the likes of IT analyst Gartner. Semenzato predicted that the whole "paradigm" of spreadsheets would eventually change.

Until now ClusterSeven has focused its attention on the derivatives trading departments of the large investment banks. This is because traders rely so heavily on spreadsheets and their spreadsheets tend to be among the most complex. This has enabled the company to gear its technology for the most demanding environments, Semenzato said.

The software is suitable for any organisation or any department, however, where spreadsheets are used heavily